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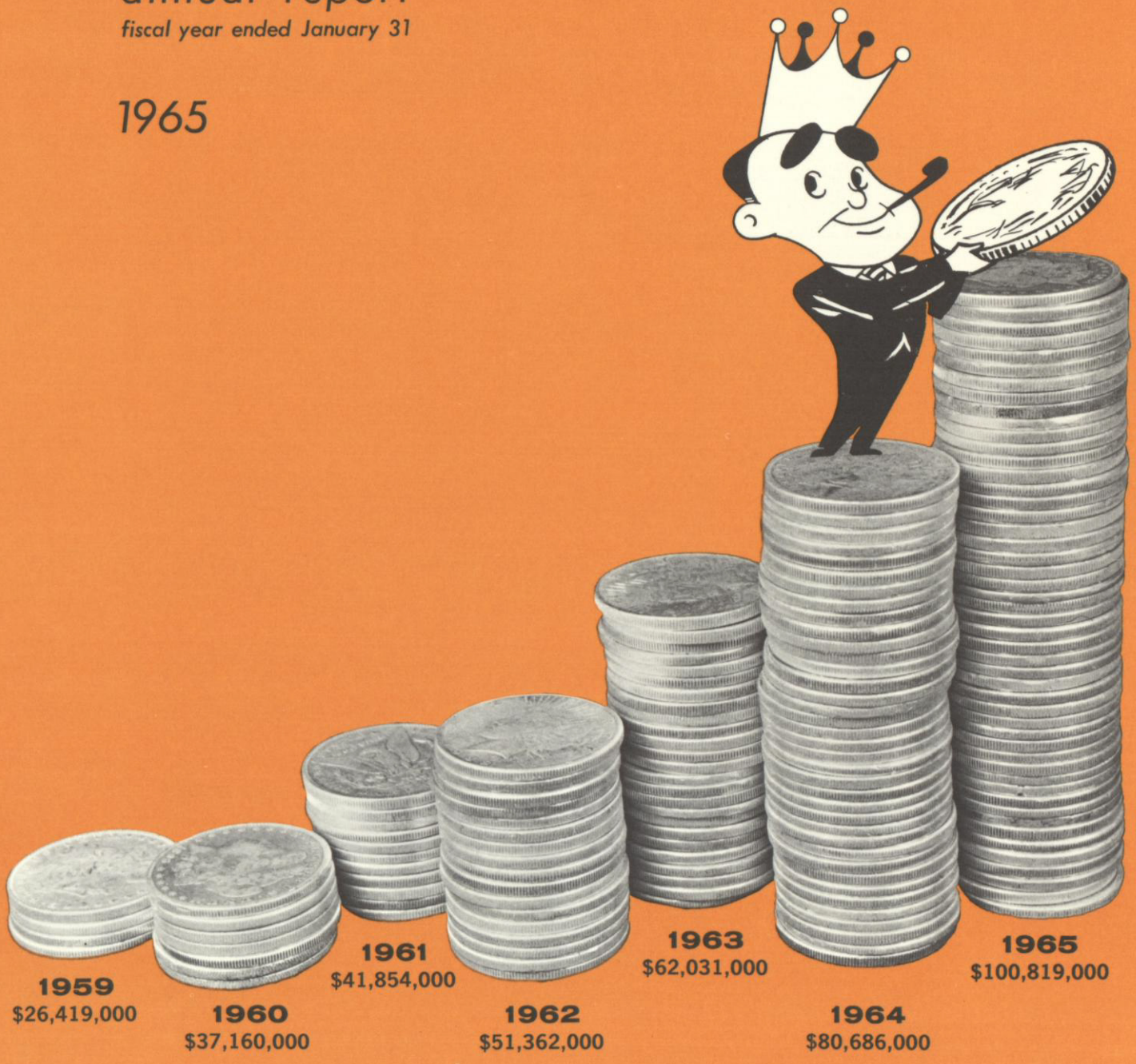
annual report

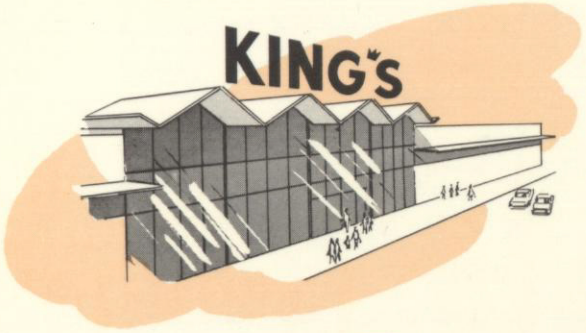
fiscal year ended January 31

1965



King's Department Stores, Inc.

37 King's Stores Serve Over 20 Million Customers Every Year!

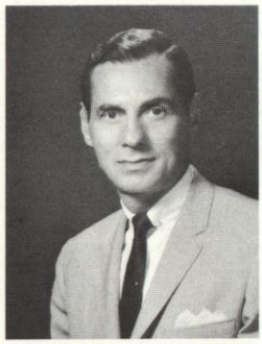


STATE	CITY
Colorado	Denver
Connecticut	Manchester Meriden Milford New Haven Seymour Stamford
Florida	Ft. Lauderdale Jacksonville West Palm Beach
Georgia	Atlanta
Maine	Falmouth
Massachusetts	Brockton Fitchburg Hyannis Methuen Newton Shrewsbury Springfield
New Hampshire	Portsmouth
New Jersey	Edgewater Park Vineland
New York	Albany Buffalo Cheektawaga Niagara Falls West Seneca
North Carolina	Durham Greensboro Winston Salem
Ohio	Niles
Pennsylvania	Allentown
Vermont	Rutland
Virginia	Newport-News Norfolk (2) Richmond

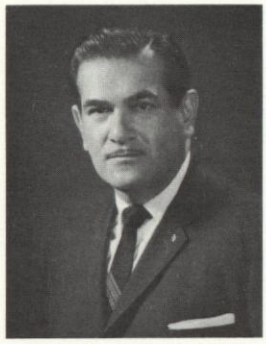
THE YEAR AT A GLANCE

OPERATIONS	Year Ended January 31, 1965	Year Ended January 31, 1964
Total Sales	$100,819,000	$80,686,000
Leased Department Sales	28,722,000	22,770,000
Net Sales	72,097,000	57,916,000
Leased Department and Other Income	3,012,000	2,287,000
Total Income	75,109,000	60,203,000
Cost of Goods Sold and Expenses	69,315,000	56,911,000
Income before Taxes	5,794,000	3,292,000
Provision for Taxes	2,690,000	1,571,000
Net Income	3,104,000	1,721,000
Earnings Per Share*	2.07	1.15
FINANCIAL		
Current Assets	15,467,000	11,110,000
Current Liabilities	5,810,000	3,955,000
Working Capital	9,657,000	7,155,000
Current Ratio	2.7	2.8
Stockholders' Equity	13,035,000	10,177,000
Equity Per Share*	8.70	6.80
Stock Split	5-for-4	5%

*Based on 1,497,391 shares outstanding.



MURRAY A. CANDIB
President



AARON O. COHEN
Chairman

TO OUR SHAREHOLDERS:

April 23, 1965

Operating Results

The year ended January 31, 1965 was the best in the history of King's Department Stores. We achieved new all time highs in sales and earnings. After taxes earnings increased 80% to $3,104,000, equal to $2.07 per share, while sales increased 25% to $100,819,000. Working capital of $9,656,-000 represented an increase of more than $2,500,000.

The sharp rise in profitability resulted from a combination of the growth of volume and the continued improvement in our operational efficiency. The increase in sales is attributable not only to the additional volume produced by the stores opened last year but to the performance of our chain as a whole.

Expansion Program

King's expansion program included five new stores which were opened during 1964 in Buffalo, Cheektowaga, West Senaca, Niagara Falls, New York and Vineland, New Jersey. On March 22, 1965 three new stores were opened in Virginia at Norfolk, Richmond and Newport News. Plans have been made for the opening of additional units this year; lease negotiations with respect to four stores are now in progress.

As we indicated last year, our program includes improving the appearance and modernizing the facilities of existing stores. Special attention is being given to merchandise presentation. The operations of four stores renovated in 1964 have shown such improvement as to justify a continuation of this program with other stores.

As now formulated the cost of King's expansion and modernization plans for the current year will be borne by the Company without resorting to equity or debt financing.

Dividends

In the early part of 1964 the Company began paying quarterly cash dividends of 12½¢ per share. At year-end, the Board authorized a five for four stock split and subsequently authorized the payment of the 12½¢ quarterly dividend on the increased number of shares. This represents an effective increase of 25% in the dividend rate.

Outlook

We are confident that 1965 will be a period of significant sales and profit gains and King's is prepared to take full advantage of the opportunities inherent in our expanding economy. Our three store openings in March were very successful. We have every reason to believe that King's will move ahead again this year.

General

The listing of King's Common Stock on the New York Stock Exchange in September 1964 was a significant milestone. The listing will enhance the marketability of the Company's stock and represents recognition of the Company by the investment community.

It would have been impossible to have had such a highly successful year without a strongly motivated and competent organization. We take this opportunity to extend our sincere appreciation to all members of the King's family for their part in the most profitable year in our history.

Sincerely,

Aaron O. Cohen
Chairman

Murray A. Candib
President

STATEMENT OF CONSOLIDATED EARNINGS AND RETAINED EARNINGS

Year ended January 31, 1965 with comparative figures for 1964

	1965	1964
Total store sales	$100,819,052	$80,686,308
Less leased department sales	28,721,612	22,769,820
Net sales	72,097,440	57,916,488
Leased department income, net	2,815,356	2,082,148
Interest and other income	196,326	204,359
Total income	75,109,122	60,202,995
Cost of goods sold, transportation and buying expenses	53,023,906	44,415,859
Store operating, administrative and general expenses, including leased department expenses	15,771,859	12,067,402
Depreciation and amortization	518,923	427,365
Total costs and expenses	69,314,688	56,910,626
Earnings before Federal taxes on income	5,794,434	3,292,369
Federal taxes on income (note 4)	2,690,106	1,570,626
Net earnings	3,104,328	1,721,743
Retained earnings at beginning of year	4,057,865	3,108,069
	7,162,193	4,829,812
Stock dividends:		
Par value of 298,453 shares issued as a five-for-four stock split plus cash for fractional shares	333,272	—
Market value of 54,722 shares issued as a 5% stock dividend plus cash for fractional shares	—	771,947
Cash dividends paid, $.30 per share, adjusted for stock split	447,180	—
	780,452	771,947
Retained earnings at end of year	$ 6,381,741	$ 4,057,865

See accompanying notes to financial statements.

ASSETS

	January 31, 1965	1964
Current assets:		
Cash	$ 3,355,190	$ 1,511,540
Time deposits and commercial paper	3,493,125	1,500,000
Accounts receivable:		
Budget receivables	133,574	129,573
Other	271,613	387,332
Total receivables	405,187	516,905
Merchandise inventories, at lower of cost or market, principally by the retail method	8,054,521	7,379,806
Prepaid expenses	159,344	202,006
Total current assets	15,467,367	11,110,257
Fixed assets, at cost:		
Land and land improvements	242,287	150,732
Fixtures and equipment	4,583,777	3,858,326
Leasehold improvements	686,278	740,301
	5,512,342	4,749,359
Less:		
Accumulated depreciation and amortization	1,991,227	1,473,211
Reserve for investment credit	—	46,364
	1,991,227	1,519,575
Net fixed assets	3,521,115	3,229,784
Other assets:		
Cash surrender value of life insurance	81,469	59,946
Unamortized leasehold acquisition costs (being amortized over lives of leases)	645,841	—
Total other assets	727,310	59,946
	$19,715,792	$14,399,987

See accompanying notes

BALANCE SHEET

LIABILITIES

	January 31, 1965	1964
Current liabilities:		
Current installment on long-term note payable	$ 126,341	—
Accounts payable	2,473,135	2,205,408
Accrued expenses	536,594	408,639
Federal taxes on income	2,674,546	1,340,736
Total current liabilities	5,810,616	3,954,783
Deferred Federal taxes on income, applicable to accelerated depreciation deducted for tax purposes	319,724	268,054
3½% note payable due in four annual installments ranging from $130,727 in 1966 to $144,593 in 1969	550,659	—
Stockholders' equity:		
Common stock, $1 par value (note 2). Authorized 2,000,000 shares; issued and outstanding 1,497,391 shares (1964—1,177,547 shares)	1,497,391	1,177,547
Additional paid-in capital (note 3)	5,155,661	4,941,738
Retained earnings	6,381,741	4,057,865
Total stockholders' equity	13,034,793	10,177,150
	$19,715,792	$14,399,987

to financial statements.

NOTES TO FINANCIAL STATEMENTS

January 31, 1965

(1) Principles of consolidation:
The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned. All intercompany accounts and transactions have been eliminated in consolidation.

(2) Stock option plans:
Restricted stock option plans established in 1961 and 1963 provide for the granting of options to officers and key employees to purchase shares of common stock of the company at a price of not less than 95% of the fair market value at the date of grant at the cumulative rate of 20% annually.
In 1964 a qualified stock option plan which meets the requirements of the Revenue Act of 1964 was established. Options may be granted at prices not less than fair market value on date of grant and are exercisable beginning one year after date of grant at the cumulative rate of 25% annually. Options were granted under this plan on January 8, 1965 to certain officers and employees to purchase 10,700 shares of common stock.
Details of options outstanding under the 1961, 1963 and 1964 plans and shares available for option under the 1964 plan follow:

	Number of shares	
	Issuable under options granted	Available for option
Balance at beginning of year	83,730	25,532
Changes during year:		
Options granted at $28.00 per share or a total of $299,600	10,700	(10,700)
Options exercised at $8.79 and $9.41 per share or a total of $235,314 as compared with quoted market prices ranging from $14.40 to $27.00 per share or a total of $515,732	(26,738)	—
Options terminated	(361)	—
Balance at end of year	67,331	14,832

During the year options became exercisable to purchase 16,635 shares at $8.79 and $9.41 per share or a total of $146,751 as compared with a quoted market value of $14.50 and $21.80 per share or a total of $356,925.
The number of shares and prices per share quoted above have been adjusted to reflect the five-for-four stock split.

(3) Additional paid-in capital:
Additional paid-in capital at January 31, 1965 is comprised of the following:

Excess of proceeds from sale in fiscal year 1962 of 250,000 shares of common stock over par value thereof	$2,642,685
Excess of market value over par value of shares of common stock issued as stock dividends	2,299,053
Excess of option price over par value of 21,391 shares issued under stock option plans	213,923
	$5,155,661

(4) Federal taxes on income:
Federal taxes on income consists of:

	1965	1964
Taxes currently payable, less investment credit of $28,341 ($27,066 in 1964)	$2,684,800	$1,488,264
Deferred taxes, including investment credit deferred of $29,320 in 1964	51,670	82,362
Reversal of prior years' investment credit	(46,364)	—
	$2,690,106	$1,570,626

(5) Commitments:
The company's store leases provide for fixed monthly rentals and usually provide for additional rent based upon stipulated percentages of gross sales. Total minimum annual fixed rentals payable under leases expiring after three years, exclusive of applicable real estate taxes and other charges, aggregated approximately $2,746,000. Leases covering about 89% of this amount expire on various dates between 1968 and 1985, and leases on the remainder expire prior to 1988.

Statement of Source and Application of Funds
January 31, 1965
with comparative figures for 1964

	1965	1964
Funds were provided by:		
Net earnings for the year	$3,104,328	$1,721,743
Depreciation and amortization of fixed funds	518,923	427,365
Deferred Federal taxes on income	51,670	46,039
Reserve for investment credit	(46,364)	24,914
Common shares issued under stock option plans	235,314	—
3½% note payable	550,659	—
	4,414,530	2,220,061
Funds were applied to:		
Additions to fixed assets, net	763,890	912,678
Cash paid in lieu of fractional shares for stock split (1965) and 5% stock dividend (1964)	34,819	19,520
Decrease in long-term debt	—	56,598
Increase in cash surrender value of life insurance	21,523	6,449
Cash dividends	447,180	—
Leasehold acquisition costs net of amortization	645,841	—
	1,913,253	995,245
Increase in working capital	$2,501,277	$1,224,816

See accompanying notes to financial statements.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
JOHN HANCOCK BUILDING
BOSTON, MASS 02116

The Stockholders and
The Board of Directors

King's Department Stores, Inc.:

We have examined the consolidated balance sheet of King's Department Stores, Inc. and subsidiaries as of January 31, 1965 and the related statement of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated earnings and retained earnings present fairly the financial position of King's Department Stores, Inc. and subsidiaries at January 31, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of source and application of funds presents fairly the information shown therein.

Peat, Marwick, Mitchell & Co.

Boston, Mass.
March 29, 1965

SIX YEAR REVIEW

Year Ended January 31, 1965

	1965	1964	1963	1962	1961	1960
Total Sales	$100,819,000	$80,686,000	$62,031,000	$51,362,000	$41,854,000	$37,160,000
Leased Department Sales	28,722,000	22,770,000	14,416,000	9,917,000	6,994,000	5,760,000
Net Sales	72,097,000	57,916,000	47,615,000	41,445,000	34,860,000	31,400,000
Leased Department and Other Income	3,012,000	2,287,000	1,504,000	1,047,000	747,000	615,000
Total Income	75,109,000	60,203,000	49,119,000	42,492,000	35,607,000	32,015,000
Cost of Goods Sold and Expenses	69,315,000	56,911,000	46,512,000	39,865,000	34,412,000	30,304,000
Income before Taxes	5,794,000	3,292,000	2,607,000	2,627,000	1,195,000	1,711,000
Provision for Taxes	2,690,000	1,571,000	1,306,000	1,293,000	519,000	835,000
Net Income	3,104,000	1,721,000	1,301,000	1,334,000	676,000	876,000
Earnings Per Share*	2.07	1.15	.87	.89	.45	.59
Stock Split (Stock Dividend)	5 for 4	5%	5%	2%	—	—
Number of Stores	35	31	25	18	13	12

*Based on 1,497,391 shares outstanding.

DIRECTORS

AARON O. COHEN
MURRAY A. CANDIB
WILLIAM F. KENNEY
AARON G. GOLDBERG
NATHAN GREENBERG
H. STANLEY KRUSEN
JACK HARTBLAY
BENJAMIN M. FIEGAR
CHARLES J. KITTREDGE

OFFICERS

AARON O. COHEN, Chairman of the Board
MURRAY A. CANDIB, President
WILLIAM F. KENNEY, Vice President
AARON G. GOLDBERG, Vice President
NATHAN GREENBERG, Treasurer
BENJAMIN M. FIEGAR, Ass't. Treasurer

TRANSFER AGENTS

OLD COLONY TRUST COMPANY, Boston, Mass.
MARINE MIDLAND TRUST COMPANY, New York, N.Y.

REGISTRAR

FIRST NATIONAL BANK OF BOSTON, Boston, Mass.
CHEMICAL BANK NEW YORK TRUST COMPANY, New York, N.Y.

GENERAL COUNSEL

PARKER, CHAPIN AND FLATTAU, New York, N. Y.

AUDITOR

PEAT, MARWICK, MITCHELL & CO.

EXECUTIVE OFFICES

150 California Street, Newton 58, Massachusetts

KING'S Department Stores, Inc.

150 California Street

Newton 58, Massachusetts